

Senate Study Bill 1250 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON DAWSON)

A BILL FOR

1 An Act authorizing future tax contingencies, reducing the
2 state inheritance tax rates and providing for the future
3 repeal of the state inheritance tax and state qualified
4 use inheritance tax, and including effective date and
5 retroactive applicability provisions.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

FUTURE TAX CHANGES

3 Section 1. 2018 Iowa Acts, chapter 1161, section 133, is
4 amended by striking the section and inserting in lieu thereof
5 the following:

6 SEC. 133. EFFECTIVE DATE. This division of this Act takes
7 effect January 1, 2023.

DIVISION II

INHERITANCE TAX

10 Sec. 2. Section 450.10, Code 2021, is amended by adding the
11 following new subsection:

12 NEW SUBSECTION. 7. *a.* In lieu of each rate of tax imposed
13 in subsections 1 through 4, for property passing from the
14 estate of a decedent dying on or after January 1, 2021, but
15 before January 1, 2022, there shall be imposed a rate of tax
16 equal to the applicable tax rate in subsections 1 through 4,
17 reduced by twenty-five percent, and rounded to the nearest
18 one-hundredth of one percent.

b. In lieu of each rate of tax imposed in subsections 1 through 4, for property passing from the estate of a decedent dying on or after January 1, 2022, but before January 1, 2023, there shall be imposed a rate of tax equal to the applicable tax rate in subsections 1 through 4, reduced by fifty percent, and rounded to the nearest one-hundredth of one percent.

c. In lieu of each rate of tax imposed in subsections 1 through 4, for property passing from the estate of a decedent dying on or after January 1, 2023, but before January 1, 2024, there shall be imposed a rate of tax equal to the applicable tax rate in subsections 1 through 4, reduced by seventy-five percent, and rounded to the nearest one-hundredth of one percent.

32 Sec. 3. NEW SECTION. 450.98 Tax repealed.

Effective January 1, 2024, this chapter shall not apply to property of estates of decedents dying on or after January 1, 2024. The inheritance tax shall not be imposed under this

1 chapter in the event the decedent dies on or after January 1,
2 2024, and, to this extent, this chapter is repealed.

3 Sec. 4. NEW SECTION. 450B.8 Tax repealed.

4 Effective January 1, 2024, this chapter shall not apply to
5 property of estates of decedents dying on or after January 1,
6 2024. The qualified use inheritance tax shall not be imposed
7 under this chapter in the event the decedent dies on or after
8 January 1, 2024, and, to this extent, this chapter is repealed.

9 Sec. 5. CODE EDITOR DIRECTIVE. The Code editor is directed
10 to remove chapters 450 and 450B from the Code and correct
11 appropriate references to chapters 450 and 450B and appropriate
12 references to the inheritance tax and qualified use inheritance
13 tax effective January 1, 2034.

14 Sec. 6. EFFECTIVE DATE. This division of this Act, being
15 deemed of immediate importance, takes effect upon enactment.

16 Sec. 7. APPLICABILITY. This division of this Act applies
17 retroactively to the estates of decedents dying on or after
18 January 1, 2021.

19	EXPLANATION
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20 The inclusion of this explanation does not constitute agreement with
21 the explanation's substance by the members of the general assembly.

22 This bill authorizes future tax contingencies and
23 proportionally reduces over a three-year period the rates of
24 tax applicable to the state inheritance tax, beginning with
25 estates of decedents dying on or after January 1, 2021, and
26 repeals the state inheritance tax beginning with estates of
27 decedents dying on or after January 1, 2024.

28 DIVISION I — FUTURE TAX CHANGES. The bill amends 2018 Iowa
29 Acts, chapter 1161, section 133 (trigger), by striking the two
30 conditions necessary for the trigger to occur, and specifies
31 the provisions in 2018 Iowa Acts, chapter 1161, sections
32 99-132, take effect January 1, 2023.

33 Currently, the two conditions are necessary for the trigger
34 to occur include net general fund revenues for the fiscal year
35 ending June 30, 2022, equaling or exceeding \$8.3146 billion,

1 and also equaling or exceeding 104 percent of the net general
 2 fund revenues for the fiscal year ending June 30, 2021. If
 3 these two conditions are not satisfied, current law institutes
 4 the changes for tax years beginning on or after the January 1
 5 following the first fiscal year for which the two conditions
 6 do occur. By striking the "trigger", the bill sets in motion
 7 numerous tax changes for tax years beginning on or after
 8 January 1, 2023, described below.

9 INDIVIDUAL INCOME TAX. The tax changes include reducing the
 10 number of individual income tax brackets from nine to four, and
 11 modifying the taxable income amounts and tax rates as follows:

	Income over:	But not over:	Tax Rate:
12			
13	1) \$0	\$6,000	4.40%
14	2) \$6,000	\$30,000	4.82%
15	3) \$30,000	\$75,000	5.70%
16	4) \$75,000		6.50%

17 For a married couple filing a joint return, the taxable
 18 income amounts in each bracket above are doubled. Also, the
 19 taxable income amounts in each bracket above will be indexed to
 20 inflation and increased in future tax years, beginning in the
 21 tax year following the 2023 tax year.

22 INDIVIDUAL INCOME TAX CALCULATION. Under current law, the
 23 starting point for computing the Iowa individual income tax is
 24 federal adjusted gross income before the net operating loss
 25 deduction, which is generally a taxpayer's gross income minus
 26 several deductions. From that point, Iowa requires several
 27 adjustments and then provides taxpayers with a deduction
 28 for federal income taxes paid, and the option to deduct a
 29 standard deduction or itemized deductions. The bill changes
 30 the starting point for computing the individual income tax
 31 to federal taxable income, which includes all deductions and
 32 adjustments taken at the federal level in computing tax,
 33 including a standard deduction or itemized deductions, and the
 34 qualified business income deduction allowed for certain income
 35 earned from a pass-through entity. Because the starting point

1 changes to federal taxable income, and federal law does not
2 provide for the filing status of married filing separately
3 on a combined return, the bill repeals that filing status
4 option for Iowa tax purposes. Because net operating loss is
5 no longer calculated at the state level, the bill requires a
6 taxpayer to add back any federal net operating loss deduction
7 carried over from a taxable year beginning prior to the 2023
8 tax year, but allows taxpayers to deduct any remaining Iowa net
9 operating loss from a prior taxable year. The bill repeals the
10 individual alternative minimum tax (AMT), allows an individual
11 to claim any remaining AMT credit against the individual's
12 regular tax liability for the 2023 tax year, and then repeals
13 the AMT credit in the tax year following the 2023 tax year.
14 The bill repeals most Iowa-specific deductions, exemptions,
15 and adjustments currently available when computing net income
16 and taxable income under Iowa law, including the Iowa optional
17 standard deduction and all itemized deductions, and the ability
18 to deduct federal income taxes, except for a one-year phase
19 out in the 2023 tax year for taxes paid, or refunds received,
20 that relate to a prior year. The bill maintains the add-back
21 for income from securities that are federally exempt but not
22 state-exempt, and for bonus depreciation amounts. The bill
23 maintains the general pension exclusion and the deduction
24 for income from federal securities. The bill maintains the
25 deduction for contributions to the Iowa 529 plan, the Iowa ABLE
26 plan, a first-time homebuyer savings account, and an individual
27 development account. The bill also maintains the deductions
28 for military pension income, military active duty pay, social
29 security retirement benefits, certain payments received for
30 providing unskilled in-home health care, certain amounts
31 received from the veterans trust fund, victim compensation
32 awards, biodiesel production refunds, certain wages paid
33 to individuals with disabilities or individuals previously
34 convicted of a felony, certain organ donations, and Segal
35 AmeriCorps education award payments. The bill modifies the

1 existing deduction for health insurance payments in Code
2 section 422.7(29) to make the deduction only applicable to
3 taxpayers who are at least 65 years old and who have net
4 income below \$100,000. The bill also modifies the existing
5 capital gain deduction in Code section 422.7(21) to restrict
6 the deduction to the sale of real property used in farming
7 businesses by permitting the taxpayer to take the deduction
8 if either of the following apply: the taxpayer materially
9 participated in the farming business for at least 10 years and
10 held the real property for at least 10 years; or the taxpayer
11 sold the real property to a relative. The bill expands the
12 definition of "relative" to include an entity in which a
13 relative of the taxpayer has a legal or equitable interest in
14 the entity as an owner, member, partner, or beneficiary. The
15 bill provides a new deduction for any income of an employee
16 resulting from the payment by an employer, whether paid to
17 the employee or a lender, of principal or interest on the
18 employee's qualified education loan. The bill also modifies
19 the calculation of net income for purposes of the alternate
20 tax calculation in Code section 422.5(3) and (3B), and the tax
21 return filing thresholds in Code section 422.13, to require
22 that any amount of itemized deduction, standard deduction,
23 personal exemption deduction, or qualified business income
24 deduction that was allowed in computing federal taxable income
25 shall be added back.

26 CORPORATE INCOME TAX AND FRANCHISE TAX CALCULATION. Under
27 current law, the starting point for calculating the corporate
28 income tax and franchise tax is federal taxable income before
29 the net operating loss deduction, because net operating loss is
30 calculated at the state level. The bill repeals the separate
31 calculation of net operating loss at the state level. As a
32 result, the bill requires taxpayers to add back any federal
33 net operating loss deduction carried over from a taxable year
34 beginning prior to the trigger year, but allows taxpayers to
35 deduct any remaining Iowa net operating loss from a prior

1 taxable year. The bill also repeals most Iowa-specific
2 deductions, exemptions, and adjustments currently available
3 when computing net income and taxable income under Iowa law.
4 The bill maintains the add-back for income from securities
5 that are federally exempt but not state exempt, and for bonus
6 depreciation amounts. The bill maintains the deductions for
7 income from federal securities, for foreign dividend and
8 subpart F income, for certain wages paid to individuals with
9 disabilities or individuals previously convicted of a felony,
10 and for biodiesel production refunds.

11 DIVISION II — INHERITANCE TAX. For decedents dying on or
12 after January 1, 2021, but before January 1, 2022, the rates
13 of tax applicable to the state inheritance tax are reduced 25
14 percent. For decedents dying on or after January 1, 2022, but
15 before January 1, 2023, the rates of tax applicable to the
16 state inheritance tax are reduced 50 percent. For decedents
17 dying on or after January 1, 2023, but before January 1, 2024,
18 the rates of tax applicable to the state inheritance tax are
19 reduced 75 percent.

20 The bill then repeals the state inheritance tax and the state
21 qualified use inheritance tax effective January 1, 2024, for
22 property of estates of decedents dying on or after January 1,
23 2024. Inheritance tax will not be imposed on any property in
24 the event of the death of an individual on or after January 1,
25 2024. The bill directs the Code editor to remove Code chapters
26 450 (inheritance tax) and 450B (qualified use inheritance tax)
27 from the Code effective January 1, 2034.

28 The division takes effect upon enactment and applies
29 retroactively to the estates of decedents dying on or after
30 January 1, 2021.